

Written Testimony of
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To the
Subcommittee on Federal Workforce and Agency Organization
Hearing: “Mom, Apple Pie, and Working for America:
Accountability and Rewards for the Federal Workforce” October 5, 2005

Introduction

Good morning. Chairman Porter, Vice Chairman Mica, Ranking Member Davis, and members of the Committee, thank you for inviting me to testify today. I am Terri Shaw, the Department of Education’s Chief Operating Officer for Federal Student Aid, a position I have held since September 2002. I am pleased to be here representing Secretary Spellings, the Department, and Federal Student Aid to share with you some of Federal Student Aid’s successes in transforming our workforce, elevating our performance, and delivering tangible results.

The Department of Education’s grant, loan, and work programs represent the largest source of student aid for postsecondary education in the United States. In 2005, these programs provided approximately \$74 billion to more than 10 million students and their families.

Federal Student Aid is charged with operational responsibility for oversight and administration of all the Department’s Federal student financial assistance programs under Title IV of the Higher Education Act of 1965 (HEA). As one of the government’s few Performance-Based Organizations, Federal Student Aid upholds high standards of operational efficiency, innovation, customer care, and individual and organization performance.

Established in 1998, Federal Student Aid was the Federal Government's first Performance-Based Organization, with particular emphasis on modernizing the delivery of student assistance programs. The authorizing statute provides that the purposes of the Performance-Based Organization are to improve service delivery, integrate business processes and systems supporting the programs, strengthen program integrity, reduce operating costs, and increase workforce and management accountability.

To carry out these purposes, Federal Student Aid is focused on:

- delivering world-class customer service;
- developing award-winning products and services;
- effectively managing the programs to ensure fair and effective oversight;
- providing service delivery at the lowest cost without sacrificing quality; and
- creating and fostering a work environment that not only attracts, develops, retains and rewards top performers, but also expects high performance and demands accountability.

We are also provided, under the direction of the Secretary, certain managerial flexibilities and authorities, over personnel management, budget and procurement activities. These flexibilities and authorities allow Federal Student Aid to: 1) exercise independent control of its budget allocations and expenditures, personnel decisions and processes, procurements, and other administrative and management functions; 2) hire staff without restrictions on numbers or grades; 3) hire and remove senior managers and to hire a limited number of professional and technical staff without regard to the provisions of Title 5; 4) provide additional performance based compensation to these senior managers; 5) work with the Office of Personnel Management to develop and implement personnel flexibilities in staffing, classification, and pay; and 6) exercise the authority of the Secretary to procure property and services in the performance of our functions.

Prior to the establishment of Federal Student Aid as a Performance-Based Organization, the Federal Student Aid programs were plagued with oversight and management challenges, high default rates and customers who were not happy with the service they received. In 1990, the Government Accountability Office found the federal student aid programs at high risk for fraud,

waste, abuse, and mismanagement. Financial management and internal controls around the programs were largely non-existent and unqualified audit opinions were not attainable. In 1990, student loan default rates had hit an all time high of 22.4%. Customer satisfaction scores were not even measured.

Federal Student Aid, with its specific purposes, authorities and flexibilities, was created to effect change. We demand and expect breakthrough performance and innovation that yields higher efficiency, greater productivity and a more satisfied customer. We are transforming our workforce and culture to be highly effective by: 1) ensuring clarity of vision, mission and values; 2) ensuring that staff at all levels firmly understand their individual and inter-dependent roles in attaining the vision and mission; and 3) most importantly, requiring performance accountability.

Mr. Chairman, I believe that delivery of results is the true measure of success. Federal Student Aid has used its available personnel flexibilities and demand for high performance to achieve real change and real results for the Department of Education, for students and families and for taxpayers. I would like to describe for you how we have used these personnel flexibilities and our progress on our workforce and culture transformation.

Our hiring flexibilities allow us to fill critical and time-sensitive resource needs faster than the competitive process called for under Title 5 and to pay salaries closer to market rates for similar positions in the private sector. With this flexibility, our average period to hire is 34 calendar days. Compare that with the 200 average calendar days it took to hire the four most recently hired federal career staff who are subject to the usual competitive processes. We have used our hiring flexibility to hire 70 senior managers and professional and technical staff with needed skill sets obtained in the private sector to augment the skill sets of our federal career staff. This marriage of private sector and federal career skills, experience, and knowledge has been a great success.

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While this hiring flexibility is a key tool for us, it applies to only a small portion of our workforce. Most positions in Federal Student Aid are filled by federal career staff and subject to the competitive process called for under Title 5. This past year we worked with the Partnership for Public Service as a participant in their Extreme Hiring Makeover initiative to identify a better, faster process for recruiting and hiring qualified federal career staff. If you will look at these charts, you will see the standard staff hiring process, showing 114 steps with more than 45 handoffs. In comparison, our new streamlined process eliminates nearly 50% of the steps.

We have been equally successful in strengthening and aligning performance management with delivery of results. The development of meaningful performance standards and feedback has improved the motivation and performance of employees. Enhanced evaluation tools and performance metrics allow us to measure the effectiveness of our training programs, and to make improvements or close gaps in mission-critical competencies. Aligned individual staff performance plans, including those for senior officials, contribute to the accomplishment of our strategic objectives. And finally, we have a process that recognizes differences in performance and rewards superior performance.

The results are in.

We are particularly proud of the Department's and Federal Student Aid's recent achievement of a major President's Management Agenda (PMA), Government Accountability Office (GAO), and departmental objective by reducing the vulnerability of the federal student aid programs to fraud, waste, abuse, and mismanagement. As a result of our specific focus on reducing these

vulnerabilities and our clear and sustained demonstration of results, in January of 2005, GAO removed the federal student aid programs from its High-Risk list. "Additionally, in March 2005, FSA achieved "all green" status in "Improved Financial Performance" on the PMA Scorecard used by the Office of Management and Budget..." for monitoring our progress and status. We have received unqualified audit opinions for Fiscal Years 2002, 2003, and 2004 that found no material weaknesses in the last two years. We expect the same superior results when the Fiscal Year 2005 financial audit is completed.

We continue to make meaningful progress on reducing student loan default rates. On September 19, 2005 the Secretary announced a new all-time low default rate -- 4.5 percent--a dramatic 80 percent reduction from the all time high of 22.4 percent in 1990.

Federal Student Aid contracts with, manages and monitors a number of private sector providers for our major business functions. We have created innovative contract solutions to optimize the investment of taxpayer dollars and the return on that investment. For example:

- Our contracts with private collection agencies have performance-based evaluation incentives. This resulted in an increase of defaulted loan recoveries from \$670 million to \$1.25 billion over a four-year period while collection costs were reduced from 18 percent to 16 percent; and
- Our performance based contracts to reengineer and operate our application, servicing, and collection business functions and systems together will save taxpayers an estimated one and a half billion dollars over the ten-year term of these contracts.

Independent customer satisfaction scores for our electronic Free Application for Federal Student Aid (FAFSA) are comparable to corporations such as UPS, Mercedes Benz, and Amazon.com; Direct Loan Servicing scores are better than Wachovia Bank and similar financial services entities; Pell Grant and Direct Loan originations compare favorably to E-Trade.

Federal Student Aid is realizing efficiencies, productivity gain, and capital savings through our many initiatives enabling us to manage significantly increasing workloads at lower marginal

operating costs. For Fiscal Years 2002 – 2004, the number of FAFSA applications, Direct Loan borrowers, collection accounts, and Pell Grant recipients increased 11 percent, 8 percent, 4.5 percent, and 18 percent respectively, without corresponding increases in our operating expenses.

Our high standards and expectations for performance, and our ability to hire, manage, develop and reward employees while being respectful of our collective bargaining obligations, have enabled the Department and Federal Student Aid to achieve these and many other accomplishments. However, we can do more.

It does not take much imagination to envision even greater results with flexibilities such as those described in the Working for America Act. Competitive market-rate compensation and pay increases driven by performance and delivery of results will allow agencies to attract and retain the highest caliber staff. Managers, in collaboration with employees, will be equipped to properly set and evaluate job performance to ensure fairness in the process. Trained managers will deal with poor performers more effectively.

I am honored to be part of Secretary Spellings' team at the Department of Education. Federal Student Aid ensures that all eligible Americans can benefit from federally funded financial assistance for postsecondary education and we champion that and its value to our society.

On behalf of the Secretary, the Department, and the Federal Student Aid staff, thank you for the opportunity to testify today.

I am pleased to answer any questions you may have.